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May 22, 2007

Mr. Michael DeVos
Executive Director
Michigan State Housing Development Authority
735 E. Michigan Avenue
Lansing, MI 48912

Re: 2008 QAP Comments

Dear Mr. DeVos:

MV Communities Ltd. thanks you for the opportunity to provide input to the development of the 2008 QAP. We appreciate MSHDA's willingness to solicit and consider comments from industry practitioners. MV Communities hopes its suggestions and ideas will prove useful as MSHDA prepares its draft (and eventually final) QAP.

Awarding the Best Proposals

A prominent question heading into 2008 pertains to whether MSHDA should eliminate the lottery system currently in place. MV Communities favors removal of the lottery system. MSHDA's 2008 QAP should attempt to implement an objective system focused on awarding the best development proposals. Criteria emphasizing strong, integrated development teams, good sites, good markets, and quality design features help achieve this.

MV Communities has been (since the early 90s), and is one of the most prominent 9% developers in Ohio. As you're probably aware, the Ohio Housing Finance Agency used a similar lottery system in 2005 and 2006. Our experience, and the experience of other Ohio developers, was that the lottery system didn't necessarily award the best proposals. In Michigan specifically, the lottery enables a deal scoring 185 to be awarded before a deal that might score 195. This result seems contradictory to the

goals of the tax credit program, in that the deal scoring 195 would have met more MSHDA requirements, and therefore, should be considered a superior proposal, based on the criteria in place.

Site and Market Scoring

The most critical scoring category in the current QAP is the exact location of the site. While site location is an important consideration, the current system immediately eliminates many areas of the state for 9% tax credit competition, and creates the undesired effect of concentrating affordable housing in a few select areas.

There are precious few places in "urban" counties where the 185 point score is attainable. Further, inner ring suburbs and most areas outside the Core cities are left with no possibility of qualifying for general pool credits.

Another issue comes with the classification of counties (i.e. Monroe, St. Claire, Ottawa, Livingston) as completely urban, despite the fact they contain significant rural areas. This classification all but eliminates all or most of those counties from consideration in the 9% program. These counties are often the areas of growth and change in the state and are likely in as much or more need of affordable housing than areas that are losing population.

Since the implementation of the 185 point threshold score and the lottery, these issues have combined to result in few urban or suburban applications outside Detroit being presented for consideration.

A final issue with the current system is that it is possible, in some areas, to earn 20 points on one side of a street versus earning 0 points on the other side of the same street. This possibility defies common sense.

MV Communities supports scoring criteria that use specific site and market data, as opposed to county-wide data which is too general. Proposals should not be penalized simply because one part of a county doesn't display strong real estate characteristics. Counties contain diverse areas (population trends, employment growth, housing market strength, vacancy rates, etc.), and proposals should be judged on the specifics of the particular location and market. The soon-to-be-completed statewide housing needs assessment should be tied to the scoring criteria to help achieve a site and market specific approach.

Demand Calculation

The current means for calculating demand for housing has the effect of understating demand for senior housing. The use of the 8.7% senior turnover rate, coupled with the lack of inclusion of persons age 55-65 and current home owners with qualifying incomes, has the effect of severely

understating demand. This is particularly true for a cottage or villas product with garages, which has proven to have appeal to younger seniors as well as home owners. The turnover rate can become almost irrelevant in a market where the product being introduced is either far superior to existing product or a unique offering in the market.

Within the current system, it is nearly impossible to get a senior deal to "pencil" with respect to market viability unless it is located in a very densely populated area. This has the effect of eliminating much of the state from consideration for a new senior tax-credit development, in a time when MSHDA's senior portfolio is 97% occupied and the senior population is going to see significant increases for the next twenty (20) years.

With the preceding information in mind, MV Communities recommends a more traditional market study demand methodology be employed, particularly with respect to senior housing.

Rent Matrix

The rent matrix accomplishes the goal of producing deeply targeted rental units. However, the rent matrix is overly complicated and is based on a less-than-optimal formula. Based on numerous examples in other state QAPs, deep rent skewing can be effectively achieved using simpler and more straightforward methods.

Statewide median income should not be used as part of the rent matrix. Awarding the best sites requires an understanding of site and market specific factors. Statewide median income is too general and is neither site nor market specific. Statewide median income should be an irrelevant metric when judging real estate transactions.

Development Team Capability

Integrated, experienced, capable development teams often make or break a deal, and are a key component in determining the best overall proposals. Therefore, it is important to reward strong development teams accordingly. The current system does not accomplish this.

For example, an in-state developer with 4 years experience and 20 units can earn 10 points, versus 7 points for an out-of-state developer with 10+ years experience and thousands of units in its portfolio. In-state versus out-of-state should not be the criteria used to score the strength and capability of development teams. Considerations such as development team capacity, total experience, degree of vertical integration, and financial capacity help identify the strongest development teams.

A certain minimum amount of in-state experience is best used as a threshold item, not a competitive item. The same argument can be made for Management Company experience.

Special Needs Housing

Special needs housing is an important part of the program and should remain as a component. The current set aside of 15% may be heavy (10% may be more appropriate), considering these proposals usually need significant additional subsidy to be financially feasible.

The process to qualify for and receive an award for a special needs deal is overly cumbersome and complex. We have worked successfully in other states to provide special needs housing, in which the application process is much simpler. The 25% requirement of special needs units is also much higher than other states and can be a deterrent to providing the housing, considering the financial and operational challenges special needs units place on a development.

MV Communities recommends a unit set aside determined in concert with applicable local supportive service agencies, provided there is a minimum 5% unit set-aside. This methodology captures local market conditions and can be far less burdensome on certain proposals.

PILOTS, Utility Availability, Lease Purchase

MV Communities supports the notion that PILOTS should be worth equal points for family and senior developments. There is no question that an affordable housing demand exists for both families and seniors, and therefore, PILOTS should not differentiate. A case can also be made that a development able to stand on its own financially, without a PILOT, should be rewarded points for providing affordable housing without compromising the tax base of the community in which it is located.

Utility availability (or a detailed plan to achieve it) and capacity is better served as a threshold item. Availability of utilities is a basic real-estate fundamental, and should not be viewed as a competitive item. If sites don't have utility availability (or again, a detailed plan to achieve it); they should not be able to compete.

Lease Purchase proposals should receive more than 3 points; MV Communities suggests 5. Our six-years of experience with single family proposals has been nothing but positive. The homes rent quickly, and stay rented, typically at or above pro-forma levels. Residents typically take good care of their homes because they buy-in to the homeownership aspect. In short, the lease-purchase program provides a unique, desirable housing choice, not available in most affordable markets.

Application and Addendum

While not a QAP suggestion, MV Communities encourages MSHDA to create its Application and Addendum documents in MS Excel. Well

designed Excel programs enable a much more user-friendly interface, and significant time savings.

Again, MV Communities appreciates the opportunity to comment on the 2008 QAP. If MSHDA staff would like to further discuss any of the above comments, I welcome the conversation (513-588-1000).

Sincerely,

A handwritten signature in black ink, appearing to read "David Petroni". The signature is fluid and cursive, with a large initial "D" and "P".

David Petroni

Vice-President of Multi-Family Development

Cc: Mr. Norman Harrod, Allocations Manager
Comments e-mailed to Mr. Chad Benson on May 22, 2007